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AUTHOR Buchmiller, Archie A.
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ABSTRACT

This paper traces the development of school finance reform pressures in Wisconsin from pressure in 1967 for property tax reform to 1973 legislative reform proposals. The 1973 proposal is designed to provide further equalization of educational opportunity to all Wisconsin students and to guarantee adequate financial resources to provide these opportunities to students in all school districts in the State regardless of the district property tax base. The proposal would increase the State's financial sharing in local school district costs, provide for special needs grants emphasizing early childhood education, fulfill a constitutional mandate to establish reasonably uniform districts, and establish minimum educational standards. The main features of the finance reform proposal described in this paper include provisions for raising State and local school revenue; local tax relief; the effect of the proposal toward equalizing the revenue raising ability of school districts; the principal aid program; and separate State aid programs for pupil transportation, libraries, special education, languages, driver education, lunch programs, aid to low socioedonomic status children, hiring psychologists and social workers, education service agencies, and for social security contributions paid by the employer. The document also considers the effect of the proposed legislation on selected school districts and examines its legal implications. (Author/DN)

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WISCONSIN'S ELEMENTARY-SECONDARY SCHOOL FINANCE REFORM LEGISLATION: ASSEMBLY SUBSTITUTE AMENDMENT 1 TO 1973 ASSEMBLY BILL 300

by

Archie A. Buchmiller, Ph.D.
Deputy State Superintendent
Wisconsin Department of Public Instruction

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The need for improvement and reform of Wisconsin's fiscal system for elementary and secondary education has become more apparent as recent court suits have focused on alleged Fourteenth Amendment constitutional defects. These court actions along with concerns about educational costs and property taxes generated property tax revolts by some citizens in Wisconsin communities during the spring of 1972. Other factors--public skepticism of educational effectiveness and the need for property tax reform--combined to develop political pressures on state legislators and state officials and helped to create a climate for fiscal reform which prevailed in Wisconsin in early 1973.

I. Background

The public's sensitivity to educational costs appeared about the same time as public employees (including public school teachers) began to bargain actively for wages, benefits, and conditions of work which led to substantial economic benefits. The sensitivity to educational costs and teacher militancy in employee bargaining along with the rhetoric of critics about educational ineffectiveness combined to encourage both the 1969 and 1971 Wisconsin Legislatures to enact legislation imposing cost controls which limited local school districts' eligibility for general state school aids. In addition, the 1971 Wisconsin Legislature also enacted a mandatory annual pupil assessment program to determine whether the schools were achieving the goals set for them by citizens in regard to their expectations for pupil competence in the academic skill areas.

The need for property tax reform was actively advocated by Governor Warren P. Knowles' Task Force on Local Government Finance and Organization as the high priority in 1967.[1] In addition to reforms in property tax administration, other major recommendations of Governor Knowles' Task Force included increased state aids, school district reorganization, and special categorical aids for educationally disadvantaged students. These concerns along with others gave rise to another Knowles task force, the Governor's Commission on Education, to study the existing status of public education and to recommend improvements. The final report of this Commission recommended sweeping changes in the structure, organization, governance, and financing of public elementary, secondary, and higher education in the state of Wisconsin.[2]

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The recommendations were presented at a time when the membership of the Assembly of the 1971 Legislature and the Executive Office changed from one political party to another. For this reason, among others, the Commission's recommendations did not receive serious review by the 1971 Legislature; however, both the Local Government Finance and Organization Task Force and the Governor's Commission on Education were catalysts which sparked increased interest and developments in tax and educational reform by the 1971 Legislature.

State and federal court suits relating to alleged constitutional defects following Serrano v. Priest were filed in many states, including Wisconsin. These suits called for the modification of state financing systems which discriminate against some children in regard to disparities in wealth, tax effort, and expenditures which are alleged to result in inferior educational programs, services, and facilities for these children. These pressures for educational fiscal reform and property tax relief may have encouraged Governor Patrick J. Lucey to appoint the Task Force on Educational Finance and Property Tax Reform on January 7, 1972. The Governor's Executive Order No. 29 identified the basic fiscal and political issues which the Task Force was to study and emphasized that equality in educational opportunity in Wisconsin was limited because of a high reliance on property taxes and intolerable disparities in tax burdens between districts. Forty-seven members were appointed to the Task Force, which represented leadership from both political parties and both houses of the state legislature as well as school officials, educators, and citizens at large. The Task Force analyzed expenditure and wealth information of Wisconsin school districts for the 1970-71 school year and the nature of alleged philosophical Fourteenth Amendment constitutional defects in regard to state educational financing systems in order to develop alternatives which would have the potential to improve Wisconsin's financing systems for elementary and secondary education.

The major recommendations adopted by the Task Force emphasized the importance of local control in the allocation of financial resources, the need for property tax relief and the equalization of property tax burdens, establishment of educational standards to define the state's fundamental interest in education, and a special needs program for low socio-economic status children. These programs focus on early childhood education programs for children who are or have a likelihood of becoming low achievers in basic cognitive skills.[3] It should be noted that during the preliminary public hearings on the initial recommendations by the Task Force, opponents of the further reorganization of small school districts criticized the inclusion of these features vigorously and sought to convince the committee to eliminate such recommendations from its final report. Officials of the Wisconsin Education Association Council also mounted strong pressure to soften the provisions for cost control, recommended the establishment of educational standards, advocated individual taxpayer property tax relief, and urged the creation of K-12 grade school districts, all of which were later incorporated into the recommendations of the Task Force. The preliminary recommendations of the Task Force were used by Governor Lucey as the basis for his proposals for changes in finance and governance of elementary and secondary education in Assembly Bill 300, which was introduced as the 1973-75 Executive Budget Bill. It was the basic document from which the Joint Finance Committee developed Assembly Substitute Amendment 1 to 1973 Assembly Bill 300, which is the subject of analysis in this paper.

--Sponsorship of the Proposal

The principal actors involved in helping Governor Lucey form his original budget recommendations were staff from state agencies, staff of the Department of Administration's Bureau of Budget and Planning, information from the State Superintendent of Public Instruction, and consultation with party leaders and other public officials. The preceding groups represent a diverse "body politic" in regard to recommendations for making needed changes in financing public elementary and secondary education. It is important to note that in recent bienniums the Executive Budget Bill has increasingly included substantive policy changes as well as financial appropriations for the ensuing biennium. Assembly Bill 300 introduced on February 1, 1973 and its subsequent amendment were no exception.

--The Development of the Proposal

The original proposal was developed by the Governor's staff and analysts from the Wisconsin Department of Administration. The state administrative agencies were required to submit policy and financial plans for the 1973-75 biennial budget to the Governor by early fall of 1972. Public hearings on the agency requests were held by the Governor in October and November of 1972 which were also used as public forums for the changes that were being considered. The agency budget requests were then used as a basis of developing the Governor's recommendations for the Executive Budget, introduced into the 1973 Legislature in February, 1973 as Assembly Bill 300 (AB-300). The same sources, along with the Legislative Fiscal Bureau, Legislative Council, legislative analysts, lobbyists and members of the Legislature, helped the Joint Finance Committee of the 1973 Legislature to develop the substitute amendment to the original bill.

-Legislative Process and Time Frames

Assembly Bill 300 was immediately referred to the Legislature's powerful Assembly-Senate Joint Finance Committee which is responsible for approving all bills which have a fiscal effect before debate is begun by the Legislature. The Joint Finance Committee started hearings on AB-300 in February 1973.

The timetable for action on this legislation may be predicted to follow this schedule: the introduction of Assembly Bill 300 to the Legislature, February 1, 1973; introduction of Assembly Substitute Amendment 1 by Joint Finance Committee to Assembly on May 1, 1973; enactment by the Assembly by May 4, 1973; message to Senate and floor action from May 10 to May 17, 1973; appointment of a committee of conference to develop an unamendable substitute by June 20, 1973; and probable enactment of the conference committee budget by late summer of 1973.

--Other Proposals

Two other proposals have been suggested for action by the 1973 Wisconsin Legislature. The first of these recommendations was the budget proposal submitted by the State Superintendent of Public Instruction, who was required to prepare and submit the Wisconsin Department of Public Instruction's 1973-75 biennial budget recommendations to the Governor.[4] The proposal submitted by the State Superintendent generally followed the legal provisions of the existing statutory aid formula and deliberately avoided major changes being considered by the Governor's Task Force in order not to conflict with proposals being considered by it. The State Superintendent was convinced that such a procedure would enable members of the Task Force and the Legislature to debate the reforms recommended by the Task Force without undue complication by changes advocated by him.

A second proposal was suggested by the Education Committee of the Legislative Council, a committee of the Legislature which is required to make recommendations in respect to changes in the guaranteed valuation behind each pupil in the school aid formula.[5] The Legislative Council adopted many of the major provisions of the Governor's Task Force on Educational Finance and Property Tax Reform with minor deviations as to the kinds of costs that were to be included as shared expenditures.

Neither of these proposals has been introduced into the 1973 Legislature.

II. Description of Proposal

The Assembly Substitute Amendment 1 to Assembly Bill 300 was the basis for debate and action by the Assembly of the 1973 Wisconsin Legislature. The proposed changes are the first major revision of the general state aid equalization formula since its enactment in 1949. The proposed changes keep much of the traditional philosophical and legislative purpose of the original formula, which is to provide property tax relief to the local taxpayer and to guarantee basic educational opportunities to all children regardless of their residence and the wealth of the school district. The proposal would increase the state's financial sharing in local school district costs, provide for special needs grants emphasizing early childhood education, fulfill a constitutional mandate to establish reasonably uniform districts, and establish minimum educational standards which can be viewed as guarantees to fulfill what some of the courts have referred to as a compelling fundamental state interest.

The educational provisions of the 1973-75 Assembly Budget Bill are complex. The primary purpose of the changes recommended must be considered to be a further equalization of educational opportunity to all Wisconsin students and the guarantee of adequate financial resources to provide these opportunities to students in all school districts in the state regardless of the district property tax base. In addition to operating costs, $100 per membership of annual capital outlay and principal and interest payments on long term debt are included as expenditures which

are aidable under the formula. The present payments made by the state for the employer's share of teacher retirement and social security are also transferred to the local school districts, and these expenditures are brought under formula shared cost and equalization principles rather than full 100% payments by the state.

Property tax power equalization is imposed through the use of primary and secondary per-membership guaranteed valuations which determine state aids to local school districts. The bill provides minimum standards which districts must meet in order to qualify for state aids, identifies the need for early childhood education for low socio-economic status students who are likely to be low achievers, provides for full local taxing leeway, repeals provisions for classification of school districts which relates the payment of state aids to the quantity and quality of educational programs offered by districts, and, finally, requires the establishment of a uniform system of K-12 school districts by July 1, 1975 to better meet the Wisconsin constitutional mandate for reasonably uniform districts. These provisions along with property tax reform and tax relief are part of an integral package of changes which will meet alleged Fourteenth Amendment constitutional concerns and decrease dependence on property taxes as the major source of revenue for public education.

RESOURCES AND BUDGET

1. Provisions for Raising State School Revenue

--Earmarked State Taxes

The state of Wisconsin does not rely on earmarked taxes for funding general or categorical state aid programs to local school districts, Cooperative Educational Service Agencies, and County Handicapped Children's Education Boards. Only small amounts of taxes from sources such as public utilities, chauffeurs' fees, and county elementary teachers' aids are used as revenues to support local school district costs. The state allocates income earned from the state's Common School Fund for the purchase of library and instructional material. Chauffeurs' license fees are used to support categorical aids for driver education, and the county elementary teachers' aids are based on the number of elementary teachers employed. No modifications of the major sources of revenue were made in Assembly Substitute Amendment 1 to 1973 Assembly Bill 300.

--Unearmarked State Taxes

State revenues for education primarily come from general purpose revenues, which rely on corporate and individual income taxes; receipts from a 4% sales tax which has exemptions for clothing, food, medical costs, etc.; and a number of minor excise taxes and fees. The Common School Fund is derived from income earned on investments made from

the original sale of public lands set aside for education and sold by the state. Current state payments from federal general revenue sharing have been earmarked as property tax relief, in large part through increased school aids, property tax credits, and homestead tax rebates. The proposal contains provisions which will guarantee that some or all of these resources will result in educational property tax relief for taxpayers of Wisconsin school districts.

Except for income from general federal revenue sharing, minor reforms in existing tax provisions, and the growth in income and sales tax bases, no new taxes or increases in state taxes are proposed to finance the 1973-75 biennial budget for the state of Wisconsin. In fact, one tax, the county elementary teachers' tax, is repealed.

--Percent of Increased State Support

The total operational cost and the percent of all state aids to this expenditure for the past five years are shown in Table I. These data indicate that in the face of rapidly rising costs and increasing property taxes, the percent of state support to total operational costs (excluding capital outlay and long term debt services) has remained relatively stable between 1967-68 and 1972-73. Increases in property taxes during these years can be considered the result of increases in expenditures which outdistanced the growth of both old and new property valuations in most Wisconsin school districts.

TABLE 1

Total Operational Cost and Percent that State Aids Are of Total Operational Costs of Wisconsin School Districts from 1967-68 to 1974-75[6]

Year	Total Operational Cost *	Total State Aid	Percent of Total State Aid to Operational Cost
1967-68	$ 513,427,690	$158,426,103	31%
1968-69	608,212,345	181,284,711	30
1969-70	697,422,247	223,253,697	32
1970-71	785,794,736	230,286,581	29
1971-72	922,763,859	263,642,389	29
1972-73	985,138,974	289,753,400	29
1973-74**	1,061,929,642	482,484,400	45
1974-75**	1,132,002,051	491,621,700	43

*Excludes employer share of teacher retirement and social security payments by the state.

**Estimate

The increased financial aids proposed would raise the percent of total state support of total expenditures from approximately 29% in 1972-73 to 45% in 1973-74 and 43% in 1974-75 (31% to 38% if state employer's share of teachers retirement and social security payments is included). It is important to note that the increase in state aids in 1973-75 is based on new provisions permitting the inclusion of up to $100 per membership for expenditures made for payments of principal and interest on long term debt and annual capital outlay which previously have not been included as a part of local expenditures in which the state shares under the general state aid formula. The bill also includes the transfer of payments for teacher retirement and social security which have heretofore been paid 100% by the state but which now would be transferred to local school districts. These costs also become subject to the same equalization principles as do other allowable shared cost expenditures of local school districts.

II. Provisions for Raising Local School Revenue

A. Local School Taxes for Current Operation

1. Tax Bases and Rates for Basic State Program

In the 1972-73 school year, local school districts received approximately 62% of their total resources from local property taxes. Local sources of revenue provided over 65% of all revenues received by school districts; the state, 31%; the county, 1%; and the federal government, 3%. Other minor sources of local revenues are a share (4/11ths) of utility taxes, income from mobile home parks and forest crop, interest on investments, fees, and rentals. A special school tax is levied on county owned property and lands for payment to the school district by the county.

All school districts except unified districts and those fiscally dependent upon city council and fiscal review boards of joint city school districts for the approval of budget and tax levies have the power to levy taxes on the property of the district. Officials of local municipalities, towns, villages, cities, and counties are required to accept, collect, and pay to school districts the taxes collected for operation, capital outlay, and the retirement of long term debt. Special unrepealable levies for long term debt service are subject to either 5 or 10% of the full or equalized property valuation of the school district (Chapter 67, Wis. Stats.) and are discussed under part B of this section.

Chapter 121, Wis. Stats., requires that school districts must levy minimum millages in order to qualify for state aids. These minimum levies are 3 mills for basic, integrated elementary, union high school districts, and basic K(1)-12 grade districts and 5 mills for integrated K(1)-12 grade school districts operating both elementary and secondary grades. Tax apportionment for school districts and computations for state aids must be made on the equalized valuation rather than assessed valuation.

2. Equalized or Unequalized Local Tax Leeway

--Rate Limitations on Tax Base and Provisions for Exceeding

No tax limitations for operational costs are imposed upon school districts. Except for the budget and levy approval by the voters, city councils or fiscal review boards, no limitations on millage increase or provisions for referendum are imposed on school districts. However, a number of special limitations enumerated in the following section are imposed on local expenditures which may be considered as indirect methods to limit budgets and, as a result, also tax levies. Full local tax leeway is provided in regard to levying taxes by school districts.

--Budget Increase Limitations and Provisions for Exceeding

For the 1973-74 school year, the total per-membership budgeted expenditure increase for each district may not exceed $51 of the 1972-73 per-membership allowable shared cost. Expenditures for transportation, annual capital outlay, and debt service are exempt from this limitation. The State Superintendent would be empowered to waive the cost limitations in 1973-74 if school districts are able to provide evidence which shows that a reduction of educational quality of the school district and increased costs of meeting new educational standards referred to on pages 17 and 18 of this paper would work a hardship on the district. Districts would be able to use the highest enrollment of either the 1972-73 or 1973-74 school year in computing the $51 per-membership limitation on budget increases.

Local school district tax levies would be subject to power equalization based on the use of guaranteed per-membership valuations established for educational costs which are <u>below</u> and <u>above</u> 107% of the prior year's state average shared cost per membership. Full power equalization would be invoked. However, school districts which would receive less general state aid in 1973-74 and 1974-75 shall receive a special transitional aid equal to 90% in 1973-74 and 80% in 1974-75 of the difference between the amount received in 1972-73 and the net amount computed in each year of the next biennium. Such transitional payments would decrease by 10% each year for a period of 9 years and are intended to soften the impact of power equalization on school districts which have high property valuations.

--Dollar Increase Limitations and Provisions for Exceeding

In 1973-74, school districts cannot budget more than $51 of the prior year's cost. Thereafter, no ceilings or limitations are imposed, and local property taxpayers' approval of school budgets will be the primary deterrent to high spending.

B. Local School Taxes for Capital Outlay and Debt Service

--Rate and Debt Limitations and Provisions for Exceeding

The aggregate amount of indebtedness of any municipality shall not exceed 5% of the value of taxable property except that (a) any city authorized to issue bonds for school purposes may levy an additional 10% for school purposes and (b) any school district offering instruction in grades 1 to 12 and eligible to receive the highest level of state aids may incur 10% on the current equalized valuation of the district [s. 67.03 (1) (b), Wis. Stats.].

No specific tax rate limitations are provided; however, the 5% and 10% debt limitations enumerated above impose an indirect rate ceiling to the extent that property may be taxed for long term debt retirement. The rate is also dependent upon the length of the term over which the debt is amortized. No changes are provided in Assembly Substitute Amendment 1 to 1973 Assembly Bill 300.

--Voting Provisions

Approval of proposals for capital improvements and to incur a long term debt are required under a variety of procedures ranging from the officers of the school district itself to city officials or the qualified electors of the school district. No specific tax rate limitations are provided; however, the 5% and 10% debt limitations under s. 67.03, Wis. Stats., do indirectly impose a ceiling on the extent to which the property may be taxed to make debt retirement payments. Most long term debt payment schedules are based on an average of a 20 year term. The adoption of a shorter repayment term would obviously cause a higher tax rate.

Bond Issues

With the exception of bonds issued to purchase the school property of a city because of abandonment of a city school plan or common school district or creation of a unified school district [s. 67.04 (7), Wis. Stats.], all school bond issues must be approved by a majority of the qualified electors who participate in special elections held for that purpose in common, unified, and union high school districts.

Bonds to be issued by a city council for school purposes must be supported by the affirmative vote of at least two-thirds of all of the members of the council, or, in the case of a city issuing school bonds and having territory attached for school purposes only, by two-thirds of all the votes provided by the formula under s. 120.50 (2), Wis. Stats.

Promissory Notes, s. 67.12 (12), Wis. Stats.

School boards may obligate the district for promissory notes which do not exceed $5,000 by only a two-thirds vote of the board. If the promissory note exceeds $5,000, notice of passage by the board of a resolution to borrow in this manner must be posted or be published within 10 days. A referendum on the board's resolution must be held if a petition of 500 electors or 20% of the electorate is filed requesting it within 15 days after the notice is posted or published. The board has the authority to proceed with the loan when (a) no referendum is requested or (b) if the referendum carries by a majority vote of the electors.

No changes in existing voter approval procedures are made by Substitute Amendment 1 to AB-300.

C. Provision for Local Property Tax Administration and State Supervision

Wisconsin's extensive and complex property tax administration is found in Chapters 70, 71, 72, 73, 74, 75, 76, and 77, Wis. Stats. In addition, special ministerial duties and powers are conferred upon school officials relating to powers of the school district (s. 120.08, Wis. Stats.), annual school meetings (s. 120.10, Wis. Stats.), school boards (s. 120.12, Wis. Stats.), school officers (s. 120.15, 120.16, 120.17, Wis. Stats.), fiscal board (s. 120.50, Wis. Stats.), and others in ss. 120.51, 120.52, and 120.53.

At the risk of oversimplification, the basic personal and real property tax administration presently provides for the annual assessment of such property by local assessors who are either elected or appointed to office. Property assessment rolls are held open to the public, and taxpayers may appeal from assessments made by local assessors by taking them to the municipal boards of review (s. 70.47, Wis. Stats.) which may modify the assessment made by the assessor of the municipality. Municipal officials, after appropriate actions of respective governing bodies in towns, villages, cities, counties, state and school districts, certify the property assessments which are then placed on the tax rolls and the approved tax levies are then made on property in each municipality.

Payments are made by taxpayers to municipal treasurers who are required pay to the respective municipal officials the property taxes collected on their behalf. It should be noted that municipalities use assessed valuations for the purposes of certifying levies and rates. School districts, on the other hand, are required to use full or equalized valuations established by the Wisconsin Department of Revenue and certified to school districts by the Wisconsin Department of Public Instruction (s. 121.06, Wis. Stats.). The use of equalized valuations and levies provides for equitable tax apportionments to various municipalities in the school district.

The full or equalized value of property for Wisconsin's over 1,830 assessment districts is established by the Wisconsin Department of Revenue. State assessors from the Department update the full value of classes of property in each district using sales and other information to establish the market value of property. Approximately every six years the property in each county is mass appraised, which is sometimes referred to as having been reassessed by the state. This assessment is performed by state personnel in regional tax districts under the supervision of the Wisconsin Department of Revenue.

Reform of state and local property tax administration has been proposed by numerous organizations and task forces in the past. The 1969 Task Force on Local Government Finance and Organization recommended that the state (1) adopt a uniform full market value assessment system, (2) make the county the assessment district, (3) require state real estate transfer fees, (4) require professional training for all assessors, and (5) have county treasurers collect all property taxes.[7] However, property tax reform has been slow and controversial. The bill passed by the Assembly imposes the first substantial reforms of property tax administration in recent years:

1. Limits tax increases in any township, village, city, or county for 1973 and 1974 by a formula utilizing the 1972 levy *times* statewide percent of growth in property valuation or the 1972 levy *times* percent of population growth when population growth exceeds the state average. Special assessment, user charges, and long term debt levies are excluded. These limitations may be waived by referendum vote of the electors.

2. Modifies the procedures for the assessment of manufacturing property by 1975 to include its assessment by the state, reevaluation every four years, and creation of five board of review districts and establishes procedures for appealing from board of review action to circuit court.

3. Permits a county board to adopt a county assessor system. Requires a simple majority vote of a county board to establish such system, makes provision for a county board of assessors and appointment of assessors, and authorizes services to be contracted from the Wisconsin State Department of Revenue.

4. Utilizes full (equalized, not assessed) valuations for all property assessments and apportionments. These changes overcome inequalities and misunderstandings about property tax assessments which specify one method for school districts and another for municipalities.

5. Requires the district, rather than the state, to pay all the costs of assessment and district services (reassessments, services and information).

6. Provides homestead tax relief to all persons by income level, not by age. The income limitation for graduated homestead tax relief would be raised from $5000 to $7000 annual income.

7. Retains the existing provision for a minimum 17 mill levy for distribution of property tax credits to taxing municipalities. An additional $75 million of property tax relief credits is provided to state taxpayers in the 1973-75 biennium. The bill encourages the adoption of county assessor systems and the use of more uniform assessment criteria approved by the Wisconsin Department of Revenue.

III. Local Educational Property Tax Relief Provisions or Effects

The purpose of general equalization aid to school districts is stated in s. 121.01, Wis. Stats.:

> 121.01 Purpose. It is declared to be the policy of this state that education is a state function and that some relief should be afforded from the local general property tax as a source of public school revenue where such tax is excessive and that other sources of revenue should contribute a larger percentage of the total funds needed. ... It is the purpose of the state aid formula set forth in this subchapter to cause the state to assume a greater proportion of the costs of public education and to relieve the general property of some of its tax burden.

Direct property tax relief (circuit breaker method[8]) is primarily carried out through tax sharing formulas which share state financial resources with municipalities and with individuals through direct homestead property tax relief. The latter provision, formerly for elderly home owners, is now proposed to be applicable to all taxpayers with incomes of less than $7,000 per year under Assembly Substitute Amendment 1 to Assembly Bill 300.

Cost limitations on 1973-74 local school district expenditures are imposed to assure that a substantial amount of property tax rate relief is obtained through the use of the $851 million in equalization aids that will be provided during the next biennium. The state average shared cost tax rate would be expected to drop from approximately 20 to 15 mills in 1974. The greatest tax rate reductions would be found in poor (low per-membership property valuation) districts while tax rate increases would be likely in rich (high per-membership property valuation) districts as indicated in Table IV-C.

The inclusion of a portion of the interest and principal payments on long term debt and annual capital outlay in shared costs in which the state would participate would also tend to help in the reduction and stabilization of tax rates of school districts. This helps districts which have carried out building programs and still have debt payments to make on unpaid balances. Similarly, the full payment of the employer's share of teacher retirement and social security costs which have been paid in full by the state for all districts in the past would be transferred to school districts and these expenditures would be eligible for state support as are other sharable costs.

IV. The Effect of the Proposal Toward Equalizing the Revenue-Raising Ability of School Districts

As indicated in Section III, the changes made in the bill would achieve greater equalization of revenue-raising ability by requiring the state to share in a wider variety of school district expenditures. The percent of state aids to local school district shared costs would increase from approximately 31% of such costs in 1972-73 to approximately 38% in 1973-75. This would be in line with the basic intent of the legislation to gradually shift the reliance from local property taxes to revenues from the state.

The provisions in the bill would shift the assessment of manufacturing property from the local municipality to the state in order to equalize taxes and distribution on such property. Uniform assessment and collection throughout the state would act as a disincentive for industry to move from one community to another or to seek tax breaks from communities in order to locate. Ultimately, a state property tax which is imposed on manufacturing property and the distribution of revenues from this tax to all municipalities in the state would also lean toward improved equalization of the property wealth of school districts.

The $51 per-membership cost control feature in 1973-74 discourages excessive spending by districts. State aids which would otherwise have been paid to high spending districts would thus be released to help other districts, resulting in an expenditure equalization effect by encouraging higher expenditures in these districts.

Another feature aimed at discouraging high per-membership cost districts from claiming a greater share of state resources is the establishment of a different guaranteed valuation behind each membership for local school district costs below and above 107% of the prior year's state average per-membership shared cost. Disparities in expenditures between school districts may be gradually diminished by requiring the higher cost districts to pay a greater share of the costs which are above 107% of the state average from property tax revenues. In effect, this shifts state revenues to lower cost districts which can then purchase more educational opportunities for their students as a result of increased state aids. The primary and secondary guaranteed valuations per membership proposed in the bill along with power equalization move toward the equalization of property tax rates and the more equitable revenue-producing ability of school districts as shown in Tables IV-A to IV-C.

Assembly Substitute Amendment 1 to Assembly Bill 300 transfers the present 100% state funded payments for the employer's share of teacher retirement and social security to local school districts and brings these costs under equalization. The total state property tax impact could be determined by calculating the amount of property tax revenues produced by using a state millage index on the total equalized property valuation of the state. Conversely, the difference between this amount and the total revenues needed would then represent the amount of state aids required in any given year. The bill would drop the state average property tax mill rate from approximately 18 mills to 15 mills in the next biennium. This drop along with the property tax rebates, homestead property tax relief, and limitations on municipal tax rates and expenditures would have the potential to provide greater equalization of both tax effort and district's wealth.

DISTRIBUTIONS

I. Principal State Aid Program

A. Program Calculations

The fundamental basis of Wisconsin's 1949 equalization aid formula is maintained by which the state shares in local school district costs according to the wealth of the district, the effort of the school district, the number of resident pupils, and expenditure level. The guaranteed valuation behind each membership is increased from the $52,000 behind each membership in 1972-73, as is the sharing in costs. Incentive through the classification of school districts to improve educational programs is eliminated. The modifications of the state aid equalization formula provide for the use of primary and secondary per-membership guaranteed valuations of the prior year's per-membership costs as a determinant of state aid in relation to expenditures that fall below or above 107% of the prior year's per-membership cost, in part to discourage high spending. These guarantees are shown in Table II.

TABLE II

Primary and Secondary Guaranteed Valuations Per Membership for K-8, 9-12, and K(1)-12 School Districts for 1973-75

Type of District	1973-74 Guarantees		1974-75 Guarantees	
	Primary (Below 107%)	Secondary (Above 107%)	Primary (Below 107%)	Secondary (Above 107%)
K(1)-12	$ 71,100	$ 42,400	$ 75,400	$ 45,600
9-12	213,000	127,200	226,200	136,800
K(1)-8	106,500	63,600	113,100	68,400

The following steps can be used to compute each school district's state aid:

Step 1. District Membership *Times* the Primary Guarantee *Equals* the Primary Guaranteed Valuation

Step 2. Primary Guaranteed Valuation *Minus* the District's Actual Valuation *Equals* the Primary Net Guaranteed Valuation

Step 3. Primary Shared Cost (under 107% state average) *Divided by* the Primary Guaranteed Valuation *Equals* the Primary Levy Rate

Step 4. Primary Levy Rate *Times* the Primary Net Guaranteed Valuation *Equals* the Primary State Aid to be paid

Step 5. The secondary per-membership guaranteed valuation and related factors can be substituted in the above steps to compute the secondary state aid in much the same fashion that the primary aid is computed

Step 6. Both primary and secondary computed state aids are *added* together to *equal* the total state aid due to the school district.

Step 7. If aids computed are less than the amount received in 1972-73, then transitional aids are computed by calculating 90% of *the difference* between the amount paid in 1972-73 and the amount for 1973-74 (80% in 1974-75). Any district which has "net negative state aid" (local property tax levies) would have to send such amounts to the State Superintendent on or before May 15 annually. (It should be noted that such amounts are redistributed to school districts.)

As indicated at the beginning of this section, each district's entitlement is a result of the mathematical interaction of major variables such as the number of students, cost per membership, guaranteed valuation and actual full valuation, and district's shared cost tax levy rates.

1. Guaranteed Program Level

There are no minimum, flat guaranteed program level or distribution unit aids paid under the Wisconsin equalization formula. This is a change from prior provisions which provided for the payment of flat aids of $72 and $88 per membership to school districts which did not qualify for equalization aids. Changes made by the bill would find that some districts would pay taxes to the state under power equalization; however, most of the districts would receive equalization state aid or special transitional payments based on the level of aids received in 1972-73 to ease reductions in aids for the next biennium.

2. Provisions for Special Cost Factors

Provision is not made for the use of special weightings in regard to educational need, program, salaries, regional costs, density-sparsity, or municipal overburdens in the formula. A special needs categorical aid program is provided, emphasizing early childhood education for low socio-economic class children who are or are likely to be academic under achievers in school. This program is discussed under number 4 in the following section.

3. Enrollment Increase or Decrease

Enrollment is counted by local school districts on the third Friday in September of each school year. This serves as the basis for computing state aids each year. In the 1973-74 school year, school districts may use the highest of either the 1972-73 or 1973-74 enrollment to compute the $51 per-membership budget limitation for 1973-74. This feature protects districts which suffer declines in enrollment that cannot always be easily or quickly compensated for in school district budgeting practices.

4. Special or Categorical Program Provisions

Most of the existing categorical aids would be continued in areas such as education of the handicapped, transportation, driver education, common school income for library books, and supplementary payments for school lunches. These are briefly discussed on pages 23 and 24.

A new special categorical aid program is provided in Substitute Amendment 1 to AB-300. This program will provide $650,000 in 1973-74 and $5,350,000 in 1974-75 to help school districts develop and operate special programs and services for low achievers, especially those from low socio-economic backgrounds. A special annual earmark of $250,000 in this appropriation is set up for culturally disadvantaged children. This program is discussed on pages 21 and 22 of this paper. It should be noted that the original recommendation of the Governor's Task Force was for $30 million biennially.

5. Local Incentive Provisions to Stimulate Change

Since the adoption of the present state aid formula in 1949, two school district classification schemes have been used to qualify for state aids. Districts classified as basic (minimum programs and services) were paid less aids than integrated (enriched programs and services) districts. The financial incentives have encouraged school districts to improve the quality of their programs and services.

The old classification system established minimum programs and services for each classification category. For example, the basic classification required school districts to employ licensed teachers and administrators, grant statutory minimums for salary and sick leave, hold school for 180 days each year, comply with legal provisions for the employment of teachers,

and make required deductions for teacher retirement and social security payments to the state. School districts that were classified as integrated were required to meet all requirements for basic districts; and, in addition, they were also required to provide the following programs and services for the higher level of aid: a continuous inservice program for the professional staff; adequate school facilities; a modern enriched curricular program with at least two fields of study from kindergarten, art, applied arts and music; more than five teachers in high school; instruction in high school of at least two from home economics, industrial arts, commercial work and agriculture; at least two areas from school services such as hot lunch programs, dental and medical inspections, school nurse service, one-quarter time of one person in counseling and guidance, one type of handicapped education, audio-visual aids and library facilities; instruction in conservation and use of natural resources; and the employment of at least four teachers in a district which operates only elementary grades.

The bill would replace the existing basic and integrated classification system and substitute minimum standards for all districts by July 1, 1975. The new standards encompass many of the prior criteria used for the classification of school districts. The new criteria are:

(a) Every teacher, supervisor, administrator and professional staff member shall hold a certificate, license or permit to teach issued by the department before entering on duties for such position.

(b) Every teacher shall be paid at least the minimum salary and granted the sick leave specified in s. 121.17 and the district shall comply with ss. 42.39 to 42.43, 118.01, 118.02, 118.07 (2) and 120.13 (14).

(c) It shall provide a planned, continuous in-service program for the professional staff.

(d) Provision shall be made for remedial reading services for under-achieving students in grades kindergarten through grade 3.

(e) It shall operate a 5-year-old kindergarten program.

(f) It shall operate, or be part of a cooperative, or otherwise make provision for special education programs for handicapped students as identified in s. 115.76 (1).

(g) It shall make available guidance and counseling services.

(h) School shall be held and students shall receive actual instruction for at least 180 days with additional days included as provided in s. 115.01 (10).

(i) Provision shall be made for emergency nursing services.

(j) It shall provide adequate instructional materials, texts and library services which reflect the cultural diversity and pluralistic nature of American society.

(k) It shall make adequate provision for safe and healthful facilities.

(l) Provision shall be made for instruction in elementary and high schools by qualified teachers in art, music, health and physical education.

The preceding minimum standards can be viewed as the initial iteration of educational minimums which all school districts are required to meet in order to fulfill the state's educational interest and to qualify for equalization state aids under the features of the modified state aid formula proposed in this bill.

The bill would also require that all school districts in the state be operating as K(1)-12 grade school districts by July 1, 1975. This requirement would be a more precise standard to meet the constitutional mandate of 'as nearly uniform as practicable" districts (Article X, Section 3, Wisconsin Constitution) than the present system of elementary, union high school and K-12 school districts.

6. Other Program Calculations

No additional program calculations, either in the formula or under the proposed special needs program, are provided in the reforms adopted by Assembly Substitute Amendment 1 of 1973 Assembly Bill 300.

B. Funding Plan for Principal State Aid Program

1. State and Local Shares

The basic formula for computing school district general equalization aids has been discussed in the introduction of Part A of this section. The basic equalization formula continues as a full sharing partnership on shared costs and the variables used in the formula to compute aids.

A millage index has been proposed as a method to determine the annual amount of the state aid and local property tax shares for public school expenditures. The amount of property taxes could be determined by the formula,

> Total valuation of all property *times* .015 mills *equals* the total state apportionment or share of educational expenditures for property taxes.

The state aid share could then be calculated as,

> Total operational cost *minus* computed state property tax share *equals* the amount to be raised by state aids.

Despite recommendations to this effect, such a feature was not adopted; therefore, there are no predetermined state and local shares in the principal aid program. Table III demonstrates the anticipated state average tax rates that could be used to determine such allocations.

TABLE III

Computation of State General Purpose Revenue Appropriation for General State Aid in 1973-74 and 1974-75

State and Local Financing Variables	1973-74	1974-75
Total shared cost for all districts (Net operational cost, employer's share of teacher retirement and social security, annual capital outlay and annual long term indebtedness payments)	$1,100,881,468	$1,195,261,888
Total equalized valuation of state times state average property tax rate	$43,684,146,049	$48,652,449,161
	▶ x 15.7 Mills	▶ x 16.0 Mills
Amount of total state shared cost to be borne by property tax revenues	$ 675,346,768	$ 769,783,788
Total shared costs for all districts	$ 1,100,881,468	$ 1,195,261,888
minus amount to be funded by the property tax	- 675,346,768	- 769,783,788
State appropriation required to make general aid payments	$ 425,534,700	$ 425,478,100

2. Provisions for Transition

--Leveling Up or Down to Guarantees

The bill does not provide for leveling up to any maximum or down to a minimum expenditure. Similarly, no ceiling is imposed after the 1973-74 school year. In 1973-74, school districts may not budget for more than $51 more per membership than they did in 1972-73. Capital outlay, transportation, and debt service are excluded from cost control limitations.

School districts need meet only one-third of the educational standards each year of the next biennium; however, full compliance would be required by 1975. The bill does provide for a system of transitional aids for districts which are adversely affected by power equalization to give them time to make adjustments in their expenditures.

--Maintenance of Expenditure Levels in High Expenditure Districts

Except for the cost limitation on 1973-74 expenditures, full local tax and expenditure leeway is permitted by school districts. Power equalization and the dual per-membership guaranteed valuation for costs above and below 107% of the state average costs probably will act as a substantial disincentive to increased spending since the brunt would fall on the district's property taxpayer who is expected to and will guard his own interests.

3. Save-Harmless or Minimum Participation Guarantees

There are no hold harmless or minimum participation guarantees required of school districts except for levying a minimum tax rate of at least 3 mills for high school or elementary districts and at least 5 mills for districts operating both elementary and secondary grades. Minimum education standards would be required of all districts by 1975.

4. State Budget Review and Approval Provisions

The present law requires that the Wisconsin Department of Public Instruction must approve the budgets of all school districts which receive 50% or more of their total receipts from state aids and must also review the costs of at least one-third of the districts which have costs that are above $100 of the state average expenditures for like kinds of school districts. No explicit penalties have been imposed in the past, and this proposal does not provide additional state controls or penalties for noncompliance with the changes enacted in this bill except that any district which fails to meet the new standards by 1975 would be ineligible to receive state aid.

C. Specific Non-Revenue Requirements for Local Participation

--District Structure or Organization

All school districts would be required to operate as K(1)-12 districts by July 1, 1975. Each district would have to annually meet one-third of the educational standards identified on pages 17 and 18 of this paper until full compliance is attained by July 1, 1975.

--Local Control

Limits on local control would not be imposed. Philosophically and politically, the bill touts the desirability of local control, autonomy and responsibility and seeks to place major responsibility at the school district level for the decisions about curriculum, instruction and facilities.

--Program Offerings

The minimum standards provide for remedial reading in grades K-3, 5-year-old kindergarten programs, education of handicapped children, guidance and counseling programs, use of culturally diverse materials, and instruction in art, music, health and physical education by July 1, 1975. In addition, s. 118.01, Wis. Stats., requires instruction in fundamental curricular areas which most schools are expected to provide. Almost without exception, full discretion for content, methods and time is left to local school boards.

--Accountability Provisions

No additional accountability features are required other than the 1971 Legislature's enactment of provisions to make an annual assessment of student achievement under s. 115.28(10), Wis. Stats. The historic philosophical position for strong local control militates against the imposition of extensive accountability mandates.

--Other

None are applicable to this section.

II. State Aids Distributed Separately from Principal State Aid Program

One special categorical aid program is provided in Substitute Amendment 1 to 1973 Assembly Bill 300 emphasizing early childhood education for low socio-economic class children and culturally disadvantaged students.

A. Special programs for low socio-economic status children who are likely to be low achievers.

--Purpose

This special needs program proposes to make categorical funds available for programs and services for children from low socio-economic backgrounds to compensate for the deleterious effects of social and economic conditions which prevent some children from achieving normal academic success in school. A special earmark for culturally disadvantaged children is set aside for assistance to districts to develop special programs and services for children from minority populations.

--Program Calculation

The State Superintendent is required to develop guidelines which school districts would be required to meet for the approval of special programs. The local school district would be required to appoint special citizen advisory councils to help them in the planning, operating and evaluating of programs. Annual applications from school districts would be required by the State Superintendent of Public Instruction and may be approved by him if there is reasonable assurance that such programs would be successful. An annual assessment of basic skills is likely to be a part of the evaluation methods to monitor change, progress, and success of these programs.

--Funding Plan

The proposal allocates $650,000 in the 1973-74 school year and $5,350,000 in 1974-75 for the special needs programs. The first year, 1973-74, would be used for planning and development of pilot programs at both the state and school district level. The legislative intent seems to imply that the programs funded the first year of the biennium would be experimental or demonstrative of the kind that might be adopted or modified for installation by local school districts for similar purposes or needs.

Public, nonpublic, nonsectarian and not-for-profit agencies would be eligible for funds under this program. Three full time employees are provided for state administration and technical assistance to local agencies. Since there are over 400 school districts and 800 nonpublic schools in the state, it would seem unlikely that adequate administration, technical assistance, and evaluation can be assured for the operation of this program.

B. Other State Aids

In addition to the general equalization aids provided to school districts under the equalization formula since 1949, various other kinds of special educational needs have been met with categorical aids. The financial impact of this commitment is approximately 48 million dollars annually. These categorical aids are briefly discussed in the following enumeration:

Area	Entitlement Condition	Percent of State Support	Special Conditions
1. Transportation Aid	- 2-5 miles @ $24 per student. - 5-8 miles @ $36 per student. - Over 8 miles @ $48 per student (students transported for less than 91 days are paid 1/2 the rate shown). - Special transportation aid for handicapped pupils.	100% 70%	- Handicapped transportation at 70% of cost. - Board and room in lieu of transportation. - Students living more than 2 miles from school must be transported (city district may exercise option).
2. Handicapped Aid	Reimbursement of instructional salaries, special books and materials, etc.	70%	- One-half cost of homebound instruction to maximum of $300 per pupil.
3. Psychologists and Social Workers	Reimbursement on salaries of approved senior school psychologists and social workers.	50%	- Costs above 50% are a part of operating costs and are shared under equalization aids.
4. School Library Aids	Distributed to school districts on the basis of census count of children between ages of 4 and 20.	100%	
5. Tuition Aids	Tuition payments are paid for children in children's homes, licensed foster homes, institutions and living on state lands.	100%	- No foster home payments are made for resident children of the district.
6. Employer's Share of Teacher Retirement and Social Security	The state presently pays full employer share and school districts collect and remit employee's share.	100%	

Area	Entitlement Condition	Percent of State Support	Special Conditions
7. Driver Education	Payments of $30 per student are made to school districts upon completion of both behind-the-wheel and classroom instruction.	100%	- Proration if insufficient funds are appropriated.
8. Milwaukee Language Center and Teacher Aides	A direct appropriation to support the costs of the Inter-related Language Skill Center and teacher aide program.	100%	- Annual approval by State Superintendent.
9. Cooperative Educational Service Agencies	Each of Wisconsin's 19 CESA districts receives up to a maximum of $34,000 per year for approved administrative costs of each agency.	100%	- Audit of expenditures by the Department. - Reimbursement may not exceed actual costs.
10. State School Lunch Aids	Districts may receive reimbursement on cost of school lunches for economically disadvantaged students.	Not to exceed 20¢ per meal.	- Supplement payments are limited to the difference between a district's average cost and federal reimbursement per meal.

The changes provided in the bill reduce the categorical reimbursement for psychologists and social workers from 50% to 33 1/3%, eliminate appropriations for the Milwaukee Inter-related Language Skill Center and teacher aides in 1974-75, and repeal provisions for paying the employer's share of teachers' retirement and social security by the state. The transfer of these programs to school districts makes such expenditures eligible for state support under the general aid formula to the same degree as are other shared costs.

OTHER RELATED PROVISIONS

No additional substantive changes are proposed in the bill. It should be noted that enabling legislation has been enacted requiring collective bargaining for public employees including teachers under s. 111.70, Wis. Stats., since the early 1960's. Amendments by the 1971 Legislature made strikes by municipal employees illegal, and fines of $10 per day may be levied against employees for each day they fail to respond to a court injunction directing them to return to work. Other bills before the 1973 Legislature would extend the provisions of collective bargaining legislation to include just cause dismissal, compulsory dues check off, and specifying whether a strike or binding arbitration option is selected before collective bargaining is begun in the event of a bargaining impasse.

Provisions for an annual assessment of student performance [s. 115.28(10), Wis. Stats.] were enacted by the 1971 Legislature. Legislatively adopted cost controls or ceilings on local school district expenditures for the payment of state aids have been imposed since 1969; however, this bill would eliminate all cost limitations and aid ceilings after the 1973-74 school year.

III. Effect on Selected Districts

The effect of changes made by Assembly Substitute Amendment 1 to Assembly Bill 300 will be examined on a sample of thirty K(1)-12 grade school districts. These districts have been stratified on the basis of variables used in the school aid formula--membership, net operating cost and 1971 equalized property valuation behind each pupil--for the 1972-73 school year. These data are used for the computation of general state aids for the 1972-73 school year which is used as a comparison to the level of aids estimated to be received by these districts in 1973-74. Three districts have been selected from the 1st (High) and 4th (Low) quartiles and four from the 2nd and 3rd (Average) quartiles of the total population of school districts for each of the three variables. School districts were ranked from high to low on each of the characteristics listed above in order to compare tax rates and aid entitlements in 1972-73 to those estimated for 1973-74.

Achievement scores on students are not available, and no relationship can be inferred or obtained between the variables used and student achievement. The three stratified lists are shown in Tables IV-A to IV-C with each district's computations for membership, net operating cost, equalized valuation behind each pupil, operating tax rate for 1972-73, estimated tax rate and general formula aids for 1972-73, and estimated general state aid for 1973-74.

--Membership

Average daily membership, rather than average daily attendance, is used in Wisconsin. The district's membership includes 5-year-old kindergarten students and counts them as one-half membership. The full time equivalent of students attending summer school is also included in the district's membership count.

The school districts were ranked from high to low on this variable as shown in Table IV-A. The group includes large districts (H) that range from 31,534 pupils to 3,168 pupils, average size districts (A) that range from 1,829 to 786 pupils and small (L) districts ranging from 558 to 234 pupils. The data in Table IV-A reveal that few conclusions can be drawn solely on the basis of membership. The average tax rate reduction in 1973-74 for high, average, and low membership districts is estimated to be 3.21 mills, 2.81 mills and 3.75 mills, respectively. Thus, one may infer that the desired goal of reduction of property tax rates in 1973-74 would be achieved. It appears that the lowest reduction in rates will be found in high per-membership valuation districts.

TABLE IV-A

Effect of Assembly Substitute Amendment 1 to 1973 Assembly Bill 300
on Selected K(1)-12 Grade School Districts,
Comparing Entitlements and Tax Rates for 1972-73 (under existing formula)
to 1973-74 (under changes enacted in Assembly Substitute Amendment 1)

Membership

rict	1972-73					Sub.Amend.1 to AB-300 1973-74	
	Membership	Net Operating Cost	Equalized Valuation Per Membership	General Aid Plus Est. for Teacher Ret. And Soc. Security	Oper. Cost Tax Rate (In Mills)	General Aid Including Teacher Ret. And Soc. Security	Shared Cost Tax Rate (In Mills)
on	31,534 (H)	$1,019 (H)	$58,435 (H)	$4,941,389	19.66M	$ 3,800,877	19.40
nago	3,168 (H)	926 (A)	27,985 (A)	1,525,936	22.80	1,899,319	17.67
ha	21,874 (H)	878 (A)	32,750 (A)	8,636,644	20.00	12,121,637	15.70
ua	1,829 (A)	870 (A)	38,320 (A)	909,849	21.21	1,147,312	17.60
rland	1,401 (A)	883 (A)	27,105 (A)	687,939	20.52	857,412	16.50
ot, S.W.	1,029 (A)	681 (L)	31,956 (A)	328,525	14.71	376,782	13.31
topol	786 (A)	888 (A)	52,446 (H)	109,829	17.30	133,664	15.09
	558 (L)	787 (A)	22,989 (L)	277,622	21.00	338,818	13.49
d	477 (L)	832 (A)	31,755 (A)	182,700	19.62	253,672	15.80
bridge	234 (L)	1,051 (H)	53,211 (H)	34,912	20.00	36,725	20.07
ukee	125,032 (H)	993 (H)	40,570 (A)	33,303,439	23.07	53,945,352	19.54

High	125,032 to 1,900 members	(N= 111 Districts)
Average	1,898 to 581 members	(N= 220 Districts)
Low	557 to 58 members	(N= 110 Districts)

The high per-membership size group of districts has an average cost of $941 per membership compared to $831 for the group of average size districts and $890 for the low per-membership group. These data tend to confirm similar results showing lowest per-membership costs in the group of middle size districts found by Buchmiller in a study using 1967-68 expenditure data.[9]

In the sample drawn, no net impact of power equalization was noted. The total state aids for the group of districts in Table IV-A would increase from $17,635,345 in 1972-73 to $20,916,218 in 1973-74, an increase of $3,280,873 or 19%. This compares to 41% for all districts. An examination of the equalized valuation per membership reveals that no size and valuation relationship can be drawn from this sample of districts. There appears to be a probable relationship between per-membership valuation, net operating cost per membership and tax rates as confirmed in Table IV-C in 1973-74.

--Net Operating Cost Per Membership

A second variable on which another sample of ten districts was selected used the 1972-73 school year net operating cost per membership. These data are shown in Table IV-B. The group of districts reveals a strong relationship between high net operating cost per-membership districts and the equalized property valuation per membership. High cost and high valuation appear to go hand in hand. The data show that the group of high cost districts will have an average tax rate increase of approximately one mill while the districts in the average cost range would receive a tax reduction of 3.01 mills, and those of the lowest group a reduction of 5.62 mills. Thus, from the data related to this sample of districts, it appears that poor valuation districts will have the greatest tax relief. The average property tax rates for the highest per-membership cost districts show little change between the 1972-73 and 1973-74 school years, from 21.35 mills to 21.70 mills. The decrease for the subgroups of average and low per-membership cost districts goes from approximately 19 mills in 1972-73 to 16.81 and 13.43 mills respectively in 1973-74. The relationships between high per-membership net operating cost and membership size should be interpreted cautiously since cost is more likely to be a function of wealth rather than size.

Total general state aids for the group of districts would increase from $9,293,580 in 1972-73 to $13,219,294 in 1973-74, an increase of $3,925,714 or 42%. This is approximately 2.2 times the percent of increase for districts in Table IV-A which were stratified by membership size and compares favorably with the average of 41% for all school districts ($302,042,660 in 1972-73 and $425,539,608 in 1973-74).

--Equalized Valuation Per Membership

The third sample of ten school districts was selected on the basis of equalized valuation per membership. These data (Table IV-C) show the impact of power equalization on one district, Kohler, which would share a part of the property taxes collected in 1973-74 with other school districts under power equalization. West Allis would be similarly affected; however, the special transitional aid softens the impact of power equalization. The district would lose $3,790,100 under full power equalization, but only $766,130 with transitional aids.

TABLE IV-B

Effect of Assembly Substitute Amendment 1 to 1973 Assembly Bill 300
on Selected K(1)-12 Grade School Districts,
Comparing Entitlements and Tax Rates for 1972-73 (under existing formula)
to 1973-74 (under changes enacted in Assembly Substitute Amendment 1)

Net Operating Cost Per Membership

rict	1972-73 Membership	Net Operating Cost	Equalized Valuation Per Membership	General Aid Incl. Fst. for Teacher Ret. And Soc. Security	Oper. Cost Tax Rate (In Mills)	Sub.Amend.1 to AB-300 1973-74 General Aid Including Teacher Ret. And Soc. Security	Shared Cost Tax Rate (In Mills)
efish Bay	3,874 (H)	$1,103 (H)	$45,343 (H)	$ 798,345	24.72M	$ 790,517	24.68M
er	281 (L)	1,107 (H)	51,406 (H)	43,076	16.85	53,249	20.66
leton	3,230 (H)	1,017 (H)	45,441 (H)	624,581	22.50	808,671	19.71
	551 (L)	927 (A)	24,888 (L)	307,555	20.90	364,607	17.85
pygan	11,232 (H)	887 (A)	41,286 (A)	2,835,303	19.61	4,905,735	16.67
Mills	1,437 (A)	850 (A)	43,200 (A)	309,090	18.44	455,604	16.21
iah	529 (L)	817 (A)	37,097 (A)	156,811	17.77	216,201	13.94
en	1,495 (A)	781 (L)	18,690 (L)	821,834	22.72	1,046,432	13.57
laburg	850 (A)	754 (L)	36,117 (A)	246,287	16.00	313,814	13.36
rior	7,631 (H)	744 (L)	27,186 (A)	3,150,698	18.55	4,264,467	13.47

High	$1,752 to $935 (N= 110 Districts)
Average	$ 934 to $785 (N= 221 Districts)
Low	$ 784 to $546 (N= 110 Districts)

Theoretically all districts should have more nearly equal tax rates, irrespective of actual property tax wealth of the district. An examination of the 1973-74 shared cost tax rate indicates that no district is more than 2.33 mills above the group average of 15.30 mills or more than 1.51 mills under the group average.

General state aids for this group of districts increased from $9,105,890 in 1972-73 to $11,402,329 in 1973-74, an increase of 25%, approximately 61% of the rate of increase for all districts. This seems to be in accord with the desired goal that districts which have high levels of property valuation behind each membership should receive less state aid than districts with less valuation per membership.

TABLE IV-C

Effect of Assembly Substitute Amendment 1 to 1973 Assembly Bill 300
on Selected K(1)-12 Grade School Districts,
Comparing Entitlements and Tax Rates for 1972-73 (under existing formula)
to 1973-74 (under changes enacted in Assembly Substitute Amendment 1)

Equalized Valuation Per Membership

	1972-73					Sub.Amend.1 to AB-300 1973-74	
:rict	Membership	Net Operating Cost	Equalized Valuation Per Membership	General Aid Incl. Est. for Teacher Ret. And Soc. Security	Oper. Tax Rate (In Mills)	General Aid Incl. Teacher Ret. And Soc. Security	Shared Cost Tax Rate (In Mills)
.er	541 (L)	$1,489 (H)	$153,784 (H)	$ 94,577	11.05M	$ -72,818*	13.96M
: Allis	13,068 (H)	1,074 (H)	76,752 (H)	2,071,201	15.00	1,285,071	15.78
:rosse	8,928 (H)	790 (A)	51,848 (H)	1,263,817	15.93	2,127,592	15.19
iau	9,469 (H)	858 (A)	43,992 (A)	1,895,767	19.82	3,299,189	16.46
ichardville	672 (A)	767 (L)	38,312 (A)	180,847	16.51	234,190	13.79
'ence	967 (A)	874 (A)	32,766 (A)	374,795	19.58	502,511	15.40
:le Lake	755 (A)	978 (H)	28,795 (A)	379,825	23.95	466,322	17.63
'ta	2,577 (H)	770 (L)	24,888 (L)	1,194,852	18.40	1,541,456	14.32
:sville	1,511 (A)	858 (A)	24,370 (L)	799,239	18.02	974,689	14.84
y-Kendall- .lton	1,423 (A)	842 (A)	18,981 (L)	850,970	19.62	1,044,132	15.59

High	$250,567 to $44,057	(N= 110 Districts)
Average	$ 43,992 to $26,921	(N= 221 Districts)
Low	$ 26,921 to $ 4,747	(N= 110 Districts)

*Districts are power equalized and the negative amount indicates that the district would be required to make payments to the state.

The average tax rate <u>increase</u> between 1972-73 and 1973-74 for the highest valuation per-membership group of districts would be .97 mills, while the average valuation per-membership group of districts would <u>decrease</u> 4.14 mills, and the group of low valuation districts would <u>decrease</u> 3.76 mills. The slight tax increases of high valuation districts would result in tax rates approximately at the state average of other groups, while low property valuation districts will have substantial reductions from the 1972-73 tax rate levels. Thus, greater equity is obtained in tax rates as a result of changes made by this proposal.

The average cost per membership for high valuation districts is $1118: for average valuation districts, $869; and $823 for low valuation districts. The relationship between net operating cost and per-membership valuation appears to be constant. This appears to give substance to the allegation that property rich school districts spend more per pupil for educational programs and services than do poor districts.

The effect on Wisconsin's largest city is shown in Table IV-A. The level of general state aids increases from $33 to 54 million in 1973-74, approximately a 70% increase along with an estimated reduction of the school tax rate from 23.07 mills in 1972-73 to 19.54 mills, or 16% in 1973-74. This is due, in part, to the limitation of 1973-74 expenditures to $51 per membership over 1972-73 expenditures. An increase of state aids of this magnitude would substantially assist meeting the financial needs of large urban districts. The tax rate of Milwaukee at 23.07 mills is approximately 3.8 mills above the average of the 30 districts in this sample. A cautious warning needs to be given that this tax rate reduction may come at the price of maintaining inadequate programs for certain disadvantaged children in order to achieve the goal of property tax relief. The imposition of strict cost controls to guarantee property tax relief may illustrate the need to buttress general state school aids with categorical aids to provide for special student needs. Categorical aids are one of the ways that attention can be focused on special needs and resources made available for such limited purposes.

IV. Legal Implications

The changes proposed in Assembly Substitute Amendment 1 to 1973 Assembly Bill 300 would improve the equalization of both school district revenues and property tax rates. Since the courts have not imposed any limits to measure inequalities and disparities, no conclusions can be drawn as to the tolerable adequacy of the disparities that remain among school districts after adoption of the changes proposed in the bill. None of the class court suits has been adjudicated in Wisconsin, and it is not clear as to what kind of legal urgency presently exists for fiscal reform if changes in the Wisconsin public education financing systems are not adopted by the 1973 Legislature.

The Supreme Court's recent holding in Rodriguez that education did not come under the equal protection umbrella of the Fourteenth Amendment and that the "imperfect" system in Texas was not so bad as to require mediation by the courts suggests that the remedy will primarily rest with each of the states. As a result, legislative changes are likely to be made much more slowly and incrementally.

The changes proposed in Assembly Substitute Amendment 1 to AB-300 do not appear to have legal implications. However, there are strong political implications in those parts of the bill that can be viewed as resulting in greater state control, requiring property tax power equalization, imposing school district reorganization deadlines, and providing for the adoption of state minimum educational standards. The provisions for property tax reform are also likely to be bitterly opposed as threats to the erosion of local control.

V. Summary

The changes proposed have the potential to achieve greater equity in financing public elementary and secondary education in Wisconsin. From the limited data provided in this analysis, it appears that the changes would:

-- narrow disparities in tax effort and per-membership expenditures

-- compensate school districts for the lack of property valuation

-- provide a more reasonable uniformity of school district organization

-- eliminate state aid classification systems which make educational opportunities a function of increased state aids

-- reduce the reliance on property taxes

-- begin to formulate the minimum standards for a clearer definition of the state's fundamental educational interest, and

-- reform property tax administration to overcome inequities.

The proposed changes do not:

-- put the total property wealth of the state as a whole behind each student

-- substantially reduce disparities in per-pupil costs (opportunities purchased) of high and low valuation districts, and

-- take into account educational need or cost differentials in allocating state aids.

The changes proposed in the bill have serious political and legislative problems and in their present form were not acceptable to the Senate of the 1973 Wisconsin Legislature. This proved to be the case on May 17, 1973 where it occurred with the Assembly-passed Assembly Substitute Amendment to Assembly Bill 300, thus forcing all the issues to a conference committee which is charged with developing a substitute proposal.

Notes

1. See Curtis W. Tarr, Chairman, The Report of the Task Force on Local Government Finance and Organization in Wisconsin, Madison: State of Wisconsin, January, 1969.

2. See William R. Kellett, Chairman, A Forward Look, A Final Report of the Governor's Commission on Education, Madison: State of Wisconsin, November, 1970.

3. See Ruth B. Doyle, Chairman, Final Report, The Governor's Task Force on Educational Financing and Property Tax Reform, Madison: State of Wisconsin, February, 1973.

4. See William C. Kahl, State Superintendent, Budget Request for 1973-75 Biennium, Madison: Wisconsin Department of Public Instruction, September, 1972.

5. See Wisconsin Legislative Council, Report to the 1973 Legislature on School Aids, Madison: State of Wisconsin, March, 1973.

6. The data here are taken from reports filed annually by local districts with the Department of Public Instruction and from records on state aid payments to local school districts by the Division for Financial Aids Services, Wisconsin Department of Public Instruction.

7. See Tarr, The Report of the Task Force.

8. For a discussion of property tax administration, see Education Commission of the States, Property Assessment and Exceptions: They Need Reform, Denver, Colorado, 1973, Chapter II.

9. See Archie A. Buchmiller, "Analysis of Expenditures in Wisconsin School Districts for the Development of an Expenditure Index," Unpublished Ph.D. Thesis, University of Wisconsin, Madison, Wisconsin, p. 95.

Epilogue
Senate Substitute Amendment 1
to 1973 Assembly Bill 300,
Successor to Assembly
Substitute Amendment 1
August 1, 1973

The course of fiscal reform in elementary and secondary education, at least in the state of Wisconsin, is subject to powerful influences which resist change or which substantively alter traditional practices. Assembly Substitute Amendment 1 to Assembly Bill 300, which proposed rather abrupt changes in present financial systems, failed to receive endorsement in the Senate of the Wisconsin Legislature on May 17, 1973. As a result of this action, each house of the Legislature appointed three members to a conference committee to compromise differences between the two houses. The Conference Committee was composed of three Republican Senators and three Democratic Representatives who labored through tedious weeks of private and public sessions to prepare a workable compromise which was introduced into the Senate as Senate Substitute Amendment 1 to AB-300 on July 10, 1973. The delicate balance of the Conference Committee's compromise can be seen in the fact that the Senate twice rejected the substitute bill before passing it on July 24, 1973. Power equalization; state aid formulas for providing state aids to union high schools; reform of property tax systems; categorical state aids for culturally, economically and socially disadvantaged students; elimination of manufacturing equipment and personal property from the tax rolls; cost controls on school district budgets; transfer of the employer's share of teacher retirement and social security payments from the state to the local school districts; aidable costs for the calculation of state aids; school district sharing in utility tax receipts; and school district reorganization were important and controversial elements of the Conference Committee's deliberations to reach a workable budget compromise.

The major changes to Assembly Substitute Amendment 1 to AB-300 which is discussed on pages 1 through 31 of this paper are briefly identified in this epilogue. The changes discussed are referenced by page and topic for ease in locating applicable sections in the original discussion.

p. 5, Description of Proposal

The Senate Substitute Amendment modified the impact of power equalization during the 1973-75 biennium, changed the nature of the special state aid program for low socio-economic status children, abolished the mandatory reorganization of school districts into K-12 grade district organization by 1975, and modified provisions for the reform of property tax administration. The principle of power equalization was made applicable to the secondary guaranteed valuations in the state aid formula, and no payment of local school district levies by local school districts to the state would be required until the 1976-77 school year.

p. 7, Local Taxes for Operation

The Conference Committee reinstated the requirement that municipalities share with school districts an amount of 4/11 of the total utility taxes received. Such receipts must be deducted from local expenditures which are used for the calculation of general state aids.

p. 9, Provisions for Raising Revenue

--Dollar Increase Limitations

The limitation of a $51 increase per membership in 1973-74 over 1972-73 was increased to $55, and the employer's share of teacher retirement and social security payments above $7.50 per membership was excluded from the cost control limitations. In addition, the State Superintendent may exclude the costs that school districts elect to pick up on programs on which federal funds are lost or discontinued as a factor for meeting the cost of new educational standards or maintaining existing levels of educational quality by school districts.

--Local school taxes for capital outlay and debt service

Responsibility for making payments on indebtedness of State Trust Fund loans which have been made to municipalities for school districts was transferred to the school district, and a 1% annual payment penalty was involved for late payment of such annual obligations.

p. 10, Provision for Local Property Tax Administration

The Conference Committee increased relief from high levels of personal property taxes from 1973 to 1977, and all personal property taxes on manufacturers' materials and finished products, merchants' stock in trade and livestock are to be abolished effective May 1, 1977. In addition, all manufacturing equipment is to be removed from the tax rolls on May 1, 1974.

All short term indebtedness was removed from the limitations of allowable levy rate increases for municipalities.

A select committee of the Legislature will be constituted to study the implications of removing property from the tax rolls and make recommendations to the Governor and Legislature by December 31, 1974 related to needed changes.

The Committee also provided that local municipalities could exercise the option of appointing or electing local property tax assessors. Also, three-fifths vote of the county board is required to adopt a county assessor system. Thirty-one million additional dollars was placed in the state aid appropriations to compensate for reductions in property valuation in 1974-75 due to the exemption of manufacturing equipment (also applicable to p. 12, local property tax relief).

p. 13, Equalization of Revenue-Raising Ability of Districts

Changes made by the Conference Committee proposal (Senate Substitute Amendment 1 to Assembly Bill 300) eliminate the property tax on manufacturing equipment, thus changing the original proposal to shift such property over to state assessment and administration, rather than local assessment and administration.

The liberalization of the $51 per-membership cost control to $55 does not have a substantial impact to provide additional property tax relief. The primary per-membership guaranteed valuation was increased to 110% of the prior year's cost rather than 107% adopted by the Joint Finance

Committee's bill. This resulted in increases of the level of local expenditures which are supported by the higher guaranteed valuation and thus increased the likelihood of obtaining local property tax relief.

p. 15, Guaranteed Program Level

The Conference Committee modified the provisions for power equalization so that it would be applied only to those expenditures supported under the secondary guaranteed valuation (step 5, p. 15). Any negative payments required by local school districts would be subtracted from state aids earned under the primary guaranteed valuation. However, no district would be required to make any payment of its power equalized tax levies to the state before the 1976-77 school year, thereby withholding full power equalization for four years.

Since the Committee eliminated the requirement that all union high school and K-8 districts reorganize into K-12 districts by 1975, separate formulas were established to provide increases in the guaranteed valuation for each of these types of districts which are proportionate to those fixed by K-12 grade districts. The valuations for all school districts for 1973-75 are as follows:

Type of District	1973-74 Guarantees		1974-75 Guarantees	
	Primary	Secondary	Primary	Secondary
K(1)-12	$ 71,200	$ 42,400	$ 74,800	$ 46,600
9-12	170,500	101,500	179,100	111,600
K(1)-8	68,200	40,600	71,600	44,600

It should be noted that state aid formula computations will use the current rather than the prior year's equalized property valuations to calculate state aids in the 1974-75 school year and thereafter. This will bring both expenditures and valuations on a current basis to calculate state aids.

p. 19, Provisions for Transition

--Leveling Up or Down

The budgeted per-membership cost limitation for 1973-74 was increased from $51 to $55 and also excluded per-membership cost increases for employer's share of teachers retirement and social security payments above $7.50 per membership. Districts will be able to select either the prior calendar year or school year as the base for computing cost control ceilings.

p. 20, --Maintenance of Expenditure Levels

Power equalization is applicable only to the secondary guaranteed valuation expenditures, and no district is required to share its property tax levies until 1976-77. Expenditures supported under the primary guaranteed valuation will be increased from 107% to 110% of the prior year's cost per membership.

--District Structure or Organization

The requirement that all school districts operate as K-12 districts by 1975 was eliminated.

The Conference Committee's compromise budget was formed by developing political trade-offs on proposals which have been introduced for several years. It must be considered as a new base from which future reforms and changes in education, welfare, taxation, governance, correctional institutional reform and political action can be generated for years to come. It constitutes a notice of change to the public and provides it with an opportunity and time to form coalitions and consensus for modification by future legislatures.

Notes

1. See Curtis W. Tarr, Chairman, The Report of the Task Force on Local Government Finance and Organization in Wisconsin, Madison: State of Wisconsin, January, 1969.

2. See William R. Kellett, Chairman, A Forward Look, A Final Report of the Governor's Commission on Education, Madison: State of Wisconsin November, 1970.

3. See Ruth B. Doyle, Chairman, Final Report, The Governor's Task Force on Educational Financing and Property Tax Reform, Madison: State of Wisconsin, February, 1973.

4. See William C. Kahl, State Superintendent, Budget Request for 1973-75 Biennium, Madison: Wisconsin Department of Public Instruction, September, 1972.

5. See Wisconsin Legislative Council, Report to the 1973 Legislature on School Aids, Madison: State of Wisconsin, March, 1973.

6. The data here are taken from reports filed annually by local districts with the Department of Public Instruction and from records on state aid payments to local school districts by the Division for Financial Aids Services, Wisconsin Department of Public Instruction.

7. See Tarr, The Report of the Task Force.

8. For a discussion of property tax administration, see Education Commission of the States, Property Assessment and Exceptions: They Need Reform, Denver, Colorado, 1973, Chapter II.

9. See Archie A. Buchmiller, "Analysis of Expenditures in Wisconsin School Districts for the Development of an Expenditure Index," Unpublished Ph.D. Thesis, University of Wisconsin, Madison, Wisconsin, p. 95.